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ALTERNATE DRAFT OF COMMISSIONER SUSAN P. KENNEDY

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Telecommunications Division **RESOLUTION T-16720**
Carrier Branch **April 3, 2003**
(Revised March 31, 2003 by tjs)

R E S O L U T I O N

RESOLUTION T-16720. THE EVANS TELEPHONE COMPANY. (U-1008-C). GENERAL RATE CASE FILING IN COMPLIANCE WITH G. O. 96-A, PARAGRAPH VI, AND DECISION NUMBERS 01-02-018 AND 01-05-031.

BY ADVICE LETTER NO. 326 FILED DECEMBER 19, 2001.

Summary

This resolution addresses the General Rate Case filed by Evans Telephone Company (Evans) through Advice Letter (AL) 326 on December 19, 2001 in compliance with D.01-05-031. In AL 326, Evans proposes: a) no change in its rates or charges, b) an intrastate Rate of Return (ROR) of 10.00%, the same granted by T-16007 in 1997 and, c) an increase of $160,863 in its California High Cost Fund-A (CHCF-A) draw for 2003 over its 2002 draw.

This resolution authorizes total intrastate revenue in the amount of $10,486,532 for Evans for the test year 2003. This represents a reduction of $1,109,368 to Evans' estimate of $11,595,900 for total intrastate revenue for 2003.[1] The Total Intrastate Rate Base amount for Evans is $11,278,061 with an overall Intrastate Rate of Return of 10.00% for the test year 2003. Evans had requested a Total Intrastate Rate Base amount of $12,756,407 for an authorized Overall Intrastate Rate of Return of 10.00%. Also authorized by this resolution is California High Cost Fund-A (CHCF-A) support for

[1] See Appendix C.

Evans for test year 2003 of $2,008,069. Evans had requested CHCF-A support for 2003 of $3,627,318.

A comparison of the Adopted and Evans' Test Year 2003 Total Company Results of Operations before any CHCF-A adjustment is attached as Appendix A. Appendix B compares the Adopted and Evans' Separated Results of Operations before any CHCF-A adjustment. Appendix C compares Evans' and the Adopted Intrastate Results of Operations estimates for test year 2003. Appendix D shows the Telecommunications Division's (TD) calculation of the Net-to-Gross Multiplier and the change in the gross intrastate revenue requirement based on the recommended intrastate rate of return of 10.00%. Appendix E is a copy of the adopted conditions the Commission approved in Decision No. 01-06-084 authorizing the sale of Evans to Country Road Communications in 2001.

Background

The Evans Telephone Company (Evans), a local exchange telephone utility based in Turlock, California, provides local exchange telephone service in portions of Merced, Stanislaus, Santa Clara, and Yolo Counties, serving approximately 12,500 access lines in the following exchanges and rate areas: Guinda, Patterson, Livingston, Capay, Westley, Cressey, and Grayson.

Country Road Communications filed an application on September 19, 2000 to purchase Evans Telephone Company. The Commission granted authority to purchase on June 28, 2001, in D. 01-06-084, contingent upon seven conditions as listed in Appendix E.

On December 19, 2001, Evans filed Advice Letter (AL) No. 326 in response to D.01-05-031, in which the California Public Utilities Commission (CPUC) set in motion the waterfall[2] provision in 2002 for six small LECs if they do not each file a General Rate Case (GRC) by the end of 2001.[3] The last GRC filed by Evans was in 1995 through AL No. 206 and its most recent intrastate results of operations was authorized by Resolution T-16007 dated April 9, 1997.

In AL 326, Evans proposes: a) no changes to its rates or charges, b) an intrastate ROR of 10.00%, the same return as granted by T-16007 in 1997, and c) an increase of $160,863 in its CHCF-A draw for 2003 over its 2002 draw for a total of $3,627,318.

[2] The waterfall provision refers to the 6-year phase down of the CHCF-A funding level beginning in 1998, the year after the completion of a GRC. The funding levels are 100% of the for the first 3 years, i.e., 1998, 1999 and 2000; 80 % the fourth year, i.e., 2001, 50% the fifth year, i.e., 2002; and 0% thereafter.

[3] The six companies are, Evans Telephone Company, Happy Valley Telephone Company, Ponderosa Telephone Company, Sierra Telephone Company, Inc., Siskiyou Telephone Company and Kerman Telephone Company.

Notice/Protests

Evans states that a copy of the Advice Letter was mailed to competing and adjacent utilities and/or other utilities. Notice of AL 326 was published in the Commission Daily Calendar of December 21, 2001. Notice of the AL filing was made to customers by bill insert on December 19, 2001. No protest to this AL filing has been received.

TD held a Public Meeting in Turlock on August 15, 2002, at which time Evans was given an opportunity to explain its filing to its customers and its customers were given the chance to ask questions of Evans and TD. Evans' customers were given notice of the Public Meeting through bill inserts. The notice of Public Meeting was also published in the CPUC Daily Calendar. One customer attended the Public Meeting.

Discussion

Results of Operations

Appendix A sets forth Evans' total company results of operations for test year 2003, as estimated by Evans and adopted in this Resolution.

Operating Revenue

A comparison of our Adopted and Evans' estimates of total operating revenues for test year 2003 is shown in Appendix A. Evans' estimate for total company operating revenues is $14,871,721 a difference of $509,881 from our estimate of $15,381,602. The differences between our and Evans' estimates are further described below.

In determining the test year Operating Revenues, we reviewed Evans' methodology, calculations, and assumptions for the proposed test year of 2003. Evans' revenue accounts included both recurring and non-recurring basic local service revenue and recurring customer premises revenue. Evans' revenue estimates are based on a 2.24% yearly growth rate increase that Evans applies to its calculation of six-month actual and six-month annualized 2001 data to estimate revenues for 2002 and 2003. Evans arrived at its 2.24% growth rate by using year-end percent changes to its access line growth from 1996 to 2001 and taking into consideration the loss to second lines due to cellular and cable competition for the years 2002 and 2003.

Based on a regression analysis of Evans' historical average access line growth from 1992 through 2001, the estimated growth rate is 4.147% over the ten years. The coefficient of determination from the regression analysis, which measures the strength of the relationship between the actual historical figures and the regression line growth calculations, was 99%. A coefficient of determination closer to one (100%) indicates a greater degree of relationship. In addition, field inspection of Evans' serving areas and information on population and housing growth collected from planning officials of the cities of Patterson and Livingston, supported the higher growth rate for company earnings. Therefore, we did not accept Evans' projections for access line growth of for revenues.

To arrive at 2003 estimates, we the therefore applied a compounding 4.147% percentage growth rate over all individual line items for Evans' basic local service revenue, customer premises revenue, and other local exchange revenue accounts to adopt forecast revenues for test year 2003.

For Rent revenues, TD verified Evans' 2001 annual amount to be $67,613. For its 2002 and 2003 revenues, Evans' provided estimates of $56,179 and $48,244, respectively. TD reviewed the years 1997-2001 and calculated the average arithmetic mean to estimate 2002 and 2003 revenues for this item. TD compared its calculations to Evans' and noted that the variance in estimates was not significant enough to justify changing Evans' estimates. Therefore, we accept Evans's 2003 estimates, as submitted.

For Other incidental regulated revenues, TD verified Evans' 2001 annual amount to be $113,275. TD reviewed D. 01-02-013 which approved the Settlement Transition Agreement (STA) between Pacific Bell and Small ILECs. TD also verified that Pacific's monthly STA payments to Evans, for SS7 and 800 DB/LNP queries, ended on June 30, 2001. For its 2002 and 2003 revenues, Evans' provided estimates of $1,792 and $1,809, respectively. TD reviewed the supportive documentation for all remaining items encompassed in other incidental regulated revenues. We accept Evans' 2003 estimates, as submitted.

For access revenues, Intrastate - intraLATA and interLATA, Evans used a five-year average percentage rate over access minutes of use (AMOU) billings from 1995-2000 to estimate 2003 revenues for these items. Evans derived a 9.1% increase for intraLATA minutes and a 3.6% increase for interLATA minutes. However, TD did not accept Evans' projections. TD reviewed Evans' AMOU from 1996 through 2001 and compiled the historical average AMOU growth amounts for intraLATA and interLATA. TD then tested these growth amounts using regression analysis. The coefficient of determination of the regression analysis is 91% for intraLATA and 95% for interLATA. TD's calculations of the growth rate amounts and the average percentage rates for intraLATA and interLATA, for the test year 2003, indicated 5.05% and 10.35% growths, respectively. TD then applied these percentage growth rates over access minutes of use billing to arrive at its 2003 access revenue estimates. We accept TD's calculations.

For Federal USF support, TD verified Evans' 2001 "high cost loop fund (USAC)" annual amount to be $468,895. To reflect the actual federal universal service fund support for 2002, TD requested that Evans provide a copy of its disbursement notices received from the National Exchange Carrier Association (NECA). The notice from NECA showed that Evans' actual 2002 "high cost loop fund (USAC)" amount as $436,716. TD used this figure as Evans' 2002 federal USF support. For its 2003 estimate, Evans provided a copy of the 2003 USF annual compensation estimate of $68,455, that it provided to NECA. TD verified this estimate, and we accept it.

Evans' CHCF-A support request for test year 2003 is $3,627,318. Upon review of the rates and charges of services offered by Evans, we recommend reducing Evans' 2003 CHCF-A support by $1,619,249 to $2,008,069.

For Directory revenues, TD did not accept Evans' projections for directory revenues, where no methodology was applied. TD 's regression analysis found the coefficient of determination to be too low at 68%. TD calculated a five-year average percentage rate increase of 3.19% using data from 1997 to 2001 to estimate 2003 revenues for this item. We adopt TD's estimate.

TD did not accept Evans' projections for other incidental revenues - late charges, because Evans failed to demonstrate a reasonable estimation method. TD's regression analysis found the coefficient of determination to be too low at 68%. TD calculated a five-year average percentage rate increase of 1.62% using recorded 1997 to 2001 data to estimate 2003 revenues for this item. We adopt this estimate.

TD did not accept Evans' projections for uncollectibles, because Evans failed to demonstrate a reasonable estimation method. TD used the six-year average percentage rate over basic local service billings from 1996 to 2001 of 1.5% to estimate 2003 uncollectibles. We adopt TD's estimate.

Operating Expenses

The purpose of the expense estimates is to set an expense level for ratemaking and not necessarily to estimate or control any particular expense or component of expense. For its expenses, the utility provided recorded expense levels for years 1996 through 2000. For 2001, Evans used a six-month recorded expense and annualized this value for the 2001 estimate. Evans then used the 2001 figure to project the expenses for 2002 and 2003 by increasing it for rising costs. Evans estimated that expenses would rise by 4.2% in 2002 and 5.0% for 2003. Evans escalation factors were driven primarily by increases in labor costs. These increases in labor costs were driven, in turn, by increases in the costs of health insurance, increases in wages, and other increases.

Since Country Road purchased Evans expense levels increased significantly, primarily in the administrative and general expense categories. In general, there was a fairly consistent historical expense level through the year 2000, prior to the acquisition, with a substantial increase in 2001. Many of the expense estimates increased by a factor of 2.5 or more from the recorded pre-2001 levels.

We have used the 2001 annual report to update the 2001 expenses to actual recorded numbers. The accounts are reported in several separate components: salaries, benefits, rent and other. These components were analyzed graphically. There seems to be no consistent relationship between salaries and benefits. This observation, however is consistent with the increasing costs of health insurance and wages.

TD investigated a constant dollar average method based on three years of recorded expenses adjusted for inflation with the inflation factors. TD used Evans' recorded expense figures as reflected in the utility's workpapers and annual reports for the years 1999, 2000 and 2001[4] and then applied the inflation factors for labor and non-labor for each year. [5] These inflation factors were developed by the Office of Ratepayer Advocates, which recently filed testimony supporting a 3% expense escalation factor for Kerman Telephone Company, another small Central Valley telephone company.

We accept TD's methodology for creating a constant dollar average for 2001, but we adopt an inflation factor of 3%, a value between those proposed by Evans and by TD. We find that a 3% escalation factor strikes the appropriate balance between the escalating expenses experienced by Evans and the relatively flat inflation factors prevailing in the national economy. As a result of this decision, ouradopted expense figures for test year 2003 are calculated as follows: We have used Evans' recorded expense figures as reflected in the utility's workpapers and annual reports for the years 1999, 2000, and 2001 and then applied an inflation factor of 3% to adjust expenses for 2002 and for our forecast year of 2003. The expense accounts are separated into four general categories. These categories are Plant Specific, Plant Non-specific, Customer Operations and Corporate Operations. Within each of these there are sub-accounts that are separated into each of the components. We adopt figures for each account by applying our 3% cost escalation factor to the base levels in each sub-account.

Plant Specific Expenses

Plant specific expenses include expenses related to telephone plant. These include components for motor vehicles, other vehicles, land and building, furniture and

[4] Form M Schedule I-1 (FCC Armis 43-02 Report Format) of Evans's Annual Reports for 1999, 2000 and 2001.
[5] TD used the Office of Ratepayers Advocates estimates of Non-Labor and Wage Escalation Factors for 2002-2004 from the March 2002 DRI-WEFA U.S. Economic Outlook as follows:

Year	Labor	Non-labor
1999	1.022	1.007
2000	1.034	1.036
2001	1.028	1.000
2002	1.016	1.000
2003	1.017	1.022

expenses related to cable wiring and central office equipment. Evan's estimate is $1,916,538 for 2003. Our adopted estimate is $1,825,770 for 2003

Plant Non-Specific Expenses

Plant Non-Specific expenses include such expenses as those related to network administration, testing, engineering access to the network and power. Evan's estimate is $834,024 for 2003. Our adopted estimate is $651,500.

Customer Operations Expense

Customer operation expense includes expenses related to call completion services, number services, customer services, customer billing and carrier access billing. Evan's estimate for 2003 is $1,674,404. Our estimate for 2003 is $1,442,495.[6]

Carrier access billing expense showed a substantial increase for 2001. In response to a TD data request, Evans reported that the expense for this function was recorded in the general and administrative and information management expense in prior years. The amounts were removed from those corporate expense categories and transferred to the carrier access billing expense category. The amount transferred in 2001 was $124,902.70 from information management and $23,500 from general and administrative. In addition, Evans reported that there were additional amounts related to three customer service representatives for the period 2000 to 2003.

Corporate Operations Expense

The corporate operations expense includes five categories of expenses. They are Executive and Planning, General and Administrative, Accounting & Financial, Human Resources and Information Management. The corporate operations expense has shown a significant increase in expense levels even though some of the expenses were, as described above, transferred from the corporate operations expense to the customer operations expense.

The purchase of Evans by Country Road resulted in a very significant increase in General and Administrative expenses over the historical levels. Subsequent to the purchase by Country Road, the local management has remained essentially the same with the people performing the same management and administrative functions. The only difference is the change in ownership. Evans' estimate for its corporate expense is $4,454,705 for 2003.

[6] This figure also include an adjustment for additional staff, which is discussed in the adjustments section below.

Decision (D.) 01-06-84, Appendix A, Adopted Condition 2 stated: "Evans Telephone shall not increase rates for its customers due to any increase in costs brought about by its acquisition by Country Road and Evans Holdings." We therefore determine the base levels of corporate expense and make specific adjustments to it to ensure that Californians will receive benefits from corporate operations.

We create the base level of expense by using the exact same methodology used above – a three-year constant dollar cost average for the years 1999, 2000, 2001, and then apply a 3% inflation factor. Since the corporate expense for 1999, 2000, and the first half of 2001 preceded the transfer of control, our methodology principally uses corporate costs incurred before the acquisition by Country Road and Evans Holdings.[7] Thus, this methodology insures that no rate increases are imposed on customers due to any increase in costs brought about by the acquisition, and strictly complies with the directives of D.01-06-084. As a result, there are significant differences in the estimate of corporate expense for the year 2003 between our estimate and that of Evans. Our base estimate for corporate expense for 2003 is $3,117,800. To this base level, we add $692,600 reflecting adjustments that are discussed below, and adding to an adopted corporate expense of $3,810,400.

Additional Expense Adjustments

Rate Case Expenditure: Adjustment to Corporate Operations Expenses

Evans' expenses associated with this complex general rate case totaled $139,105 for the year 2002. We believe that this is an appropriate forecast of the expenses associated with a general rate case, which occurs on a three-year cycle. To create an annual revenue requirement for this expense, we take the expenses and divide by 3. This results in a revenue requirement of $46,368 per year.

Additional Staff

Upon receiving additional and updated information from the utility TD recognizes the need for additional adjustments to expenses related to its adjusted access line growth estimates. The utility has demonstrated a need for additional employees to undertake the increased workload of the additional access lines and resulting customers. TD finds this need to be reasonable and therefore has increased its estimates for the following

[7] On September 4, 2002, TD requested specific information on Evans corporate fees for 1999 through 2003. The written response dated September 11, 2002 states that "during 1999 and 2000 the expenditures relate primarily to the Evans Family corporate operation expense. There was less involvement of the Evans Family related to the detailed operations of the company, for 2001, 2002 & 2003 the expenditures relate to Country Road Communications." Evans also stated that, "Country Roads Communications provides greater day to day involvement in the operations of the company and is much more analytical."

categories Customer Operations, Corporate Operations, and Plant Specific expenses. These increases are further explained below.

The Plant Specific expense estimate has been increased for the addition of two employees. These employees are an Outside Technician and an Inside Technician at a total cost of $120,270.

The Customer Operations expense estimate has been increased for the addition of two employees. These employees are a Service Center Representative for residential services and a Customer Service Representative for business services at total cost of $100,695.

The Corporate Operations expense estimate has been increased for the addition of three employees. These employees are a President, Programmer, and Systems Operator at a total cost of $294,632.

New California Infrastructure and Service Initiatives Warrant Adjustments to Corporate Expenses

In comments on a draft alternate resolution, Evans' asked for several adjustments to the corporate operations expenses because California benefited directly from certain initiatives that were supported at the corporate level. Evans requested an increase of $139,870 in test year holding company technology expense in light of the greater technological sophistication of CRC's staff. Evans also requested an increase of $268,000 in holding company expenses associated with operations because of three specific California operational initiatives implemented under the new management. These include: 1) access to after-hours customer support (a service that was not previously provided), 2) an upgrade in telecommunications services offered to the Rumsey Band of Wintun Indians (supporting a new casino and making available advanced telecommunications services to the tribe's school), and 3) an upgrade to the switching platform in the Patterson exchange (an area undergoing rapid growth).

We decline Evans request for the holding company technology expense. At this point, Evans has not demonstrated that this increased level of holding company expense has brought any benefits to Evans' customers, and approving this adjustment would fail to comply with D.01-06-084, which prohibits increase in costs simply because of the fact of CRC's acquisition. However, we grant Evans requests for an increase of $268,000 in holding company expenses associated with operations, because these expenses are justified by the three operational initiatives undertaken by Evans, and not to the simple fact of acquisition. Moreover, we expect that these three operation initiatives are harbingers of improving service to Evans' customers that will result from its acquisition by CRC.

Depreciation

Both TD and Evans applied the same depreciation rates to average plant in service. The significant differences in the depreciation estimates are due to several items. Evans had initially planned to retire some switching equipment in 2001 for $2,100,000; however the equipment was not retired. Also in 2001, the depreciation accrual for General Purpose Computers was $22,521 while the recorded amount in Evans' annual report for 2001 was $212,520. Therefore TD used the recorded number from the annual report. The $212,520 figure closely matched the depreciation accrual calculated from the depreciation rate for that account. We adopt TD's figures.

Depreciation Reserve

Evans supplied workpapers showing the historical development of its test year depreciation reserve. In the workpapers, the accruals and retirements were often lumped together with other debits and credits. TD separated the accrual and retirement from the amount recorded and entered the excess as an adjustment. The historical depreciation reserve was not changed.

For 2002 and 2003, Evans included a cost of removal along with retirements. On inquiry, Evans stated that the cost of removal was based on a historical relationship between retirements and cost of removal. TD's analysis showed that for the test year Evans' cost of removal was a constant 97.4% of the estimated retirement and this figure was applied to all retirements regardless of the type of plant and the need for removal. Retired computers, licensed vehicles and underground cable each had associated with it a 97.4% cost of removal. Because the historical records did not show any relationship for cost of removal for retired plant, TD removed these amounts. Evans estimated the cost of removal for 2002 at $355,240 and for 2003 the amount was $326,146. For 2001 the recorded cost of removal was $2,976 even though Evans estimated some substantial retirements including $2,100,000 for switch equipment. TD estimated the cost of removal at $800 for 2002 and $1,200 for 2003. TD's total depreciation reserve estimate is $24,734,600, an increase of $2,636,950 over Evans' estimate of $22,097,651 for the test year. We adopt TD's estimates.

Taxes

The differences in tax estimates are due to variations in Evans' and TD's estimates of income, revenue and expense. TD and Evans each used a Corporate State Franchise Tax (CCFT) rate of 8.84% and a federal income tax rate of 34.00%. The interest deduction for

Evans was originally a nominal amount for each year calculated at 5% of the total debt. Subsequently Evans provided an amortization schedule for debt of $1,750,000 and the interest calculated in the amortization was used in income tax calculations. Our estimates for Total Company Federal and State taxes are $820,705 and $234,076 respectively for the test year. [8] We adopt these estimates.

Rate Base

Evans' estimate of average plant-in-service for test year 2003 is $37,724,333. TD's total company telephone-plant-in-service estimate is $38,674,940. This difference of $950,607 is the result of one adjustment by TD to Evans' estimate as described below:

TD's adjustment to plant-in-service was to reinstate $2,100,000 of digital switch equipment that had been scheduled for retirement in 2001. Evans informed TD that the equipment would remain in use and therefore should be included in current plant estimates.

In estimating its test year Rate Base, Evans included Construction Work in Progress (CWIP). Evans has verified with TD that their estimated amount of $358,237 is for short term CWIP. TD also recognizes that Resolutions T-16697 and T-16707 authorized CWIP for the accompanying utilities. Therefore TD, finding Evans estimate reasonable recommends the inclusion of Evans short term total company CWIP estimate in the amount of $358,237.

Evans used 0.69% of the average plant balance in determining its test year total company materials and supplies estimate of $259,444. Based on the recorded ratio of materials and supplies expense to plant in service for the past five years 1997-2001, TD finds Evans estimates for this item to be unqualified. TD estimates a materials and supplies expense of $166,302 for the 2003 test year. TD's estimate is based on a five year recorded average of 0.43% of average plant balance for the years 1997-2001.

TD estimates Evans 2003 test year working cash requirement to be $716,843. This is $144,145 lower than Evans estimate of $860,988. This difference is due to TD's lower operating expense and higher revenue estimates.

We adopt these estimates concerning rate base.

Separations

[8] These figures are not reported in the appendices. Appendix C, which is the closest to these figures, reports intra-state jurisdictional taxes, not total company taxes.

Evans provides both intrastate and interstate telecommunications services, subject to the regulation of the CPUC and FCC, respectively. Because Evans' property serves both jurisdictions, the utility's revenues, expenses, taxes, investments, and reserves are allocated between interstate and intrastate services.

Separations is the process of apportioning a telephone company's property costs, related reserves, operating expenses and taxes, and revenues between the state and interstate jurisdictions. It is a vehicle by which a telephone company can separately identify the amount of expenses, investments and revenues associated with the production of a given service. These apportionments are made on the basis of relative usage and direct assignment whenever possible. The costs to be apportioned are identified in the FCC Part 36 separations manual, according to the classification of accounts as prescribed by the FCC's Part 32, Uniform System of Accounts (USOA) for Telecommunications Companies.

Evans used separation factors based on its 2000 cost studies. TD reviewed Evans' separation factors and finds them to be reasonable. Therefore, TD used the separation factors provided by the company to separate its estimates of total company expenses and plant to derive TD's estimate of Evans' intrastate results of operations.

Appendix B compares Evans and TD interstate and intrastate results of operations for test year 2003 using these separation factors. We adopt TD's estimates.

Cost of Capital

Evans requests an overall intrastate rate of return of 10.00%, the rate of return authorized by the Commission for Evans in 1997 by Resolution T-16007.

The Return on Equity for all rural ILECs should be the same since the systematic and non-diversifiable risks faced by all rural ILECs are similar. However, as a matter of practice, Decision D.97-04-036 in A.95-12-073[9] adopted an 'overall' rate of return of 10.00% for all rural ILECs. Based on information provided, TD recommends that the Commission approve Evans' request for an overall rate of return of 10.00% at this time.

We adopt TD's figures, and note that this approval should not set a precedent for any future or pending small ILEC GRC proceeding.

Net-to-Gross Multiplier

The net-to-gross multiplier indicates the unit change in gross revenues required to produce a unit change in net revenues. Appendix D shows TD's computation of Evans'

[9] In D. 97-04-036 the Commission authorized California-Oregon Telephone Company a 10.00% return on rate base for its 1997 test year as requested in A. 95-12-073 (California-Oregon's 1997 General Rate Case application).

net-to-gross multiplier. The net-to-gross multiplier of 1.66208 means that a change of $1,662 in gross revenue would be required to produce a change of $1,000 in net revenue. For Evans, based on an adopted state rate base of $11,278,061 and an adopted rate of return of 10%, the adopted intrastate revenue requirement change required is $1,619,249.

We adopt TD's figures.

CHCF-A Support

In 2002, Evans' draw from the CHCF-A was $3,466,455.

Appendix C shows Evans' intrastate results of operations using the 10.00% intrastate rate of return.

For test year 2003, our computation of Evans' CHCF-A requirement is $2,008,069 based on our adopted projected revenues, expenses, rate base and overall intrastate rate of return.

Comments

The draft resolution of the Telecommunications Division on this matter was mailed to the parties in accordance with PU Code Section 311 (g)(1) on March 14, 2003. Evans provided comments on March 20, 2003. These comments stated Evans continued commitment to previous arguments and identified several minor numerical errors. We have corrected these errors and changed the text and tables accordingly.

Commission approval is based on the specifics of this Advice Letter and does not establish a precedent for the contents of any future filings by small ILECs.

Findings

1. Evans filed its GRC on December 19, 2001, with a Test Year of 2003 in compliance with Decision No.01-05-031.

2. Evans requests the following for test year 2003:

    - No change in its rate or charges,
    - An intrastate rate of return of 10.00%, the same return granted to them in its last GRC filing in 1997, and
    - An increase in its CHCF-A draw for 2003 over 2002 of $160,863 for a 2003 CHCF-A support of $3,627,318.

3. The following is recommended by the Commission for Evans for test year 2003:

    - A total intrastate rate base amount of $11,278,061; and
    - An Intrastate Rate of Return of 10.00%.
    - A California High Cost Fund-A (CHCF-A) support of $2,008,069 representing a reduction of $1,619,249 from Evan's CHCF-A 2003 support estimate;
    - A revenue requirement of $10,486,532, a reduction of $1,109,368 from Evans' request;

4. The differences in the estimates of Evans and TD result from the use of different methodologies for estimating revenue and expenses.

5. We find the methodologies used herein to estimate revenues reasonable. We therefore, adopt the intrastate revenues as shown in Appendix C.

6. We accept TD's recommended overall rate of return of 10.00% for Evans.

7. We find Evans' Depreciation Study previously approved by the Commission, as part of its 1997 rate case is acceptable for ratemaking purposes for the test year 2003.

8. We find TD's recommended reduction of CHCF-A support for Evans for 2003 acceptable. The reduction in CHCF-A support is based on our adoption of the Intrastate Results of Operations for Evans for test year 2003 as contained in Appendix C.

THEREFORE, IT IS ORDERED that:

1. The intrastate revenues, expenses, and rate base amounts for test year 2003 identified in Appendix C are adopted for The Evans Telephone Company.

2. The overall intrastate rate of return of 10.00% is adopted for Evans.

3. Evans' CHCF-A yearly support for 2003 is $167,339 with a resulting monthly support of $164,702.

4. This resolution directs TD in concert with the Information and Management Services Division to pay Evans monthly support payments in the amount indicated above in accordance with the payment timeline set forth in D.01-09-064. The payment of monthly support to Evans is contingent on the availability of funds and the

Commission and State adoption of the budgets covering the payment for the 2003 CHCF-A support. Each monthly support payment is to be made within 30 days after the close of each calendar month. Should the monthly support payment due Evans not be paid within 30 days after the close of each calendar month, TD shall include in those payments interest equal to the 3-month commercial paper rate.

5. This resolution also directs TD to pay interest on the January 2003 monthly support payment.

6. Evans' depreciation study is adopted.

This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on April 3, 2003. The following Commissioners approved it:

William Ahern
Executive Director

APPENDIX A:EVANS TELEPHONE COMPANY
TOTAL COMPANY RESULTS OF OPERATIONS
AT PRESENT RATES
Test Year 2003

		EVANS	ADOPTED	AMOUNT	PERCENT DIFF
		(A)	(B)	(C)	(D)
OPERATING REVENUES:					
1	Local Network Services	3,978,263	4,297,238	(318,975)	-8.02%
2	Local Services - CHCF-A	3,627,318	3,627,318	-	0.00%
3	Intrastate:				
4	Interlata Access Revenue	1,716,279	1,446,020	270,259	15.75%
5	Lata Toll Revenues	1,921,527	2,382,117	(460,590)	-23.97%
6	Interstate:				
7	Access Revenues	3,381,527	3,344,276	37,251	1.10%
8	Miscellaneous	342,519	352,513	(9,994)	-2.92%
9	Less: Uncollectible Rev.	(95,712)	(67,880)	(27,832)	29.08%
10	**Total Oper. Revenues**	**14,871,721**	**15,381,602**	**(509,881)**	**-3.43%**
OPERATING EXPENSES:					
11	Plant Specific	1,916,538	1,825,770	90,768	4.74%
12	Plant NSpecific (less depr.)	834,024	651,500	182,524	21.88%
13	Customer Operations	1,674,404	1,442,495	231,909	13.85%
14	Corporate Operations	4,454,705	3,810,400	644,305	14.46%
15	**Total Oper. Expenses**	**8,879,671**	**7,730,165**	**1,149,506**	**12.95%**
TAXES:					
16	Depreciation & Amortization	3,044,009	3,201,100	(157,091)	-5.16%
17	Taxes Other Than Income	165,319	76,424	88,895	53.77%
18	State Income Taxes	238,258	377,217	(138,959)	-58.32%
19	Federal Income Taxes	835,368	1,322,582	(487,214)	-58.32%
20	**Total**	**4,282,954**	**4,977,323**	**(694,369)**	**-16.21%**
21	**Net Revenues**	**1,709,096**	**2,674,114**	**(965,018)**	**-56.46%**
RATE BASE					
22	Property, Plant & Equipment	37,724,333	38,674,940	(950,607)	-2.52%
23	Property Held for Future Use	-	-	-	0.00%
24	Tel. Plant Under Constr. ST	358,237	358,237	-	0.00%
25	Tel. Plant Under Constr. LT	-	-	-	0.00%
26	Materials and Supplies	259,444	166,302	93,142	35.90%
27	Working Cash	860,988	716,843	144,145	16.74%
28	Less: Depreciation	(22,097,651)	(24,734,600)	2,636,949	-11.93%
29	Less: Deferred Tax & Customer CIAC	(573,458)	(573,500)	42	-0.01%
30	**Total Rate Base**	**16,531,893**	**14,608,222**	**1,923,671**	**11.64%**
31	**Rate of Return**	**10.34%**	**18.31%**		

APPENDIX B: THE EVANS TELEPHONE COMPANY
SEPARATED RESULTS OF OPERATIONS AT PRESENT RATES
Test Year 2003

	EVANS			ADOPTED		
	Evans Total Company (A)	Evans Interstate (B)	Evans Intrastate Total (C)= (A-B)	ADOPTED Total Company (D)	ADOPTED Interstate (E)	ADOPTED Intrastate Total (F)= (D-E)
OPERATING REVENUES:						
1 Local Network Services	3,978,263		3,978,263	4,297,238		4,297,238
2 Local Services - CHCF-A	3,627,318		3,627,318	3,627,318		3,627,318
3 Intrastate:						
4 Interlata Access Revenue	1,716,279		1,716,279	1,446,020		1,446,020
5 Lata Toll Revenues	1,921,527		1,921,527	2,382,117		2,382,117
6 Interstate:						
7 Access Revenues	3,381,527	3,275,821	105,706	3,344,276	3,275,821	68,455
8 Miscellaneous	342,519		342,519	352,513		352,513
9 Less: Uncollectible Rev.	(95,712)	-	(95,712)	(67,880)	-	(67,880)
10 Total Oper. Revenues	**14,871,721**	**3,275,821**	**11,595,900**	**15,381,602**	**3,275,821**	**12,105,781**
OPERATING EXPENSES:						
11 Plant Specific	1,916,538	428,423	1,488,115	1,825,770	408,132	1,417,638
12 Plant NSpecific (less depr.)	834,024	189,996	644,028	651,500	148,416	503,084
13 Customer Operations	1,674,404	317,132	1,357,272	1,442,495	273,209	1,169,286
14 Corporate Operations	4,454,705	893,234	3,561,471	3,810,400	754,745	3,055,655
15 Total Oper. Expenses	**8,879,671**	**1,828,785**	**7,050,886**	**7,730,165**	**1,584,502**	**6,145,663**
TAXES:						
16 Depreciation & Amortization	3,044,009	702,885	2,341,124	3,201,100	739,160	2,461,940
17 Taxes Other Than Income	165,319	38,003	127,316	76,424	17,570	58,854
18 State Income Taxes	238,258	60,657	177,601	377,217	80,448	296,769
19 Federal Income Taxes	835,368	212,673	622,695	1,322,582	282,064	1,040,518
20 Total Operating Taxes	**4,282,954**	**1,014,218**	**3,268,736**	**4,977,323**	**1,119,242**	**3,858,081**
21 Net Revenues	**1,709,096**	**432,818**	**1,276,278**	**2,674,114**	**572,077**	**2,102,037**
RATE BASE						
22 Property, Plant & Equipment	37,724,333	8,672,078	29,052,255	38,674,940	8,891,369	29,783,571
23 Property Held for Future Use	-	-	-	-	-	-
24 Tel. Plant Under Constr. ST	358,237	82,352	275,885	358,237	82,359	275,878
25 Tel. Plant Under Constr. LT	-	-	-	-	-	-
26 Materials and Supplies	259,444	61,772	197,672	166,302	39,597	126,705
27 Working Cash	860,988	197,924	663,064	716,843	164,802	552,041
28 Less: Depreciation	(22,097,651)	(5,106,813)	(16,990,838)	(24,734,600)	(5,716,166)	(19,018,434)
29 Less: Deferred Tax & Customer CIAC	(573,458)	(131,827)	(441,631)	(573,500)	(131,800)	(441,700)
30 Total Rate Base	**16,531,893**	**3,775,486**	**12,756,407**	**14,608,222**	**3,330,161**	**11,278,061**
31 Rate of Return	**10.34%**	**11.46%**	**10.00%**	**18.31%**	**17.18%**	**18.64%**

APPENDIX C: THE EVANS TELEPHONE COMPANY
INTRASTATE RESULTS OF OPERATIONS AT ADOPTED RATE OF RETURN
TEST YEAR 2003

		Evans Proposed (A)	ADOPTED (B)	Utility Exceed Adopted Amount (C)	Utility Exceed Adopted Percentage Diff (D)	Adopted (D)
OPERATING REVENUES:						
1	Local Network Services	3,978,263	4,297,238	(318,975)	-8.02%	4,297,238
2	Local Services - CHCF-A	3,627,318	2,008,069	1,619,249	44.64%	2,008,069
3	Intrastate:					
4	Interlata Access Revenue	1,716,279	1,446,020	270,259	15.75%	1,446,020
5	Lata Toll Revenues	1,921,527	2,382,117	(460,590)	-23.97%	2,382,117
6	Interstate:					
7	Access Revenues	105,706	68,455	37,251	35.24%	68,455
8	Miscellaneous	342,519	352,513	(9,994)	-2.92%	352,513
9	Less: Uncollectible Rev.	(95,712)	(67,880)	(27,832)	29.08%	(67,880)
10	**Total Oper. Revenues**	**11,595,900**	**10,486,532**	**1,109,368**	**9.57%**	**10,486,532**
OPERATING EXPENSES:						
11	Plant Specific	1,488,115	1,417,638	70,477	4.74%	1,417,638
12	Plant NSpecific (less depr.)	644,028	503,084	140,944	21.88%	503,084
13	Customer Operations	1,357,272	1,169,286	187,986	13.85%	1,169,286
14	Corporate Operations	3,561,471	3,055,655	505,816	14.20%	3,055,655
15	**Total Oper. Expenses**	**7,050,886**	**6,145,663**	**905,223**	**12.84%**	**6,145,663**
TAXES:						
16	Depreciation & Amortization	2,341,124	2,461,940	(120,816)	-5.16%	2,461,940
17	Taxes Other Than Income	127,316	58,854	68,462	53.77%	58,854
18	State Income Taxes	177,601	153,627	23,974	13.50%	153,627
19	Federal Income Taxes	622,695	538,642	84,053	13.50%	538,642
20	**Total Operating Taxes**	**3,268,736**	**3,213,063**	**55,673**	**1.70%**	**3,213,063**
21	**Net Revenues**	**1,276,278**	**1,127,806**	**148,472**	**11.63%**	**1,127,806**
RATE BASE						
22	Property, Plant & Equipment	29,052,255	29,783,571	(731,316)	-2.52%	29,783,571
23	Property Held for Future Use	-	-	-	0.00%	-
24	Tel. Plant Under Constr. ST	275,885	275,878	7	0.00%	275,878
25	Tel. Plant Under Constr. LT	-	-	-	0.00%	-
26	Materials and Supplies	197,672	126,705	70,967	35.90%	126,705
27	Working Cash	663,064	552,041	111,023	16.74%	552,041
28	Less: Depreciation	(16,990,838)	(19,018,434)	2,027,596	-11.93%	(19,018,434)
29	Less: Deferred Tax & Customer CIAC	(441,631)	(441,700)	69	-0.02%	(441,700)
30	**Total Rate Base**	**12,756,407**	**11,278,061**	**1,478,346**	**11.59%**	**11,278,061**
31	**Rate of Return**	**10.00%**	**10.00%**			**10.00%**

APPENDIX D: THE EVANS TELEPHONE COMPANY
NET-TO-GROSS MULTIPLIER
TEST YEAR 2003

NET-TO-GROSS MULTIPLIER

1	Gross revenues		1.00000	
2	Uncollectibles		- *	
3	Net Revenues		1.00000	
4	Corporate State Franchise Tax Rate (CCFT) at 8.84% (Tax Rate times Line 3)		0.08840	8.84%
5	Federal Taxable Income at 34.0%(Line 3 less Line 4)		0.91160	
6	Federal Income Tax (Tax Rate time Line 5)		0.30994	34.00%
7	Net Income (Line 5 less Line 6)		0.60166	
8	**NET-TO-GROSS MULTIPLIER (Line 1 divided by Line 7)**		1.66208	
	INTRASTATE REVENUE REQUIREMENT			
9	Adopted State Rate Base	$	11,278,061	
10	Net Revenues Adopted at 10.00% (Line 9 times 10%)		$1,127,806	10.00%
11	Net Revenues at present rates	$	2,102,037	
12	Net Revenue At Adopted Rates		$1,127,806	
13	Change in net revenues (Line 10 less Line 11)		($974,231)	
14	TOTAL INTRASTATE REVENUE REQUIREMENT CHANGE (Line 8*Line 13)		($1,619,249)	
	CHCF-A SUPPORT			
15	2003 CHCF-A SUPPORT AT PRESENT RATES		$3,627,318	
16	ADOPTED CHCF-A SUPPORT		$2,008,069	

* Uncollectibles are included in Line 1, Gross revenues.

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APPENDIX E
ADOPTED CONDITIONS

(Decision 01-06-084)

The authority granted by this decision is contingent upon the following conditions:

1. Evans Telephone shall not sell any assets used or useful in the provision of its regulated services to satisfy debt obligations incurred by Country Road or Evans Holdings to finance the acquisition of the Evans Telephone or Evans Communications.

2. Evans Telephone shall not increase rates for its customers due to any increase in costs brought about by its acquisition by Country Road and Evans Holdings.

3. Evans Telephone shall manage its finances on a stand-alone basis, independent of Country Road, CRC Communications of California, and other affiliates.

4. Country Road and Evans Holdings shall provide Evans Telephone with sufficient equity capital to maintain a reasonable and balanced capital structure and to provide service to the public that is safe, reliable, and in compliance with all applicable statutes and Commission orders.

5. Evans Telephone shall comply with all existing and future affiliate rules and reporting requirements.

6. Evans Telephone shall not pay a dividend, loan money, or provide any other forms of capital to Country Road, Evans Holdings, or other affiliates if doing so would jeopardize the utility's ability to provide reliable service at reasonable rates.

7. Country Road shall invest approximately $11 million in network infrastructure for Evans Telephone over the next five years and increase the offering of broadband and other services to Evans Telephone customers, over current levels, without increasing local rates.

(END OF APPENDIX E)